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The Effect Of Debt Policy On The Value Of Banking Companies Listed On The Indonesian Stock Exchange

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ABSTRACT
All companies are established with the aim of increasing the value of the firm. In an effort to increase the value of the firm,the debt can reduce the manager's desire to finance activities that are not optimal, thereby increasing the value of the firm. External conditions such as poor economic conditions can affect the company, so it will be difficult for the company to repay the loan and its interest. The higher the business risk of the company, the more cautious the company is in building its capital structure. The research object is the consumer goods industry sector listed on Indonesia Stock Exchange period 2013- 2016. This research use technique of Sampling Non Probability Sampling that is Purposive Sampling. Number of samples 28 companies or 112 units of analysis. Data analysis techniques to test each variable and hypothesis testing through a simple linear regression equation model through SPSS software Version 20. This study resu lted in the finding that debt policy has a significant positive effect on corporate value and business risk can moderate the relation of debt policy to firm value. Key words: Debt Policy, Firm Value, Business Risk,Modigliani-Miller Theory,Trade-Off Theory.

ABSTRAK
Semua perusahaan didirikan dengan tujuan untuk meningkatkan nilai perusahaan. Dalam usaha meningkatkan nilai perusahaan, utang dapat mengurangi keinginan manajer untuk membiayai kegiatan-kegiatan yang tidak optimal, sehingga akan meningkatkan nilai perusahaan. Kondisi eksternal perusahaan seperti keadaan ekonomi yang tidak baik dapat memengaruhi perusahaan, sehingga perusahaan akan sulit untuk membayar pinjaman beserta bunganya. Semakin tinggi risiko bisnis perusahaan, semakin berhati-hati perusahaan tersebut dalam membangun struktur permodalannya.Obyek penelitian adalah sektor industri barang konsumsi yang terdaftar di Bursa Efek Indonesia periode 2013-2016. Penelitian ini menggunakan teknik pengambilan sampel Non Probability Sampling yaitu Purposive Sampling. Jumlah sampel 28 perusahaan atau 112 unit analisis. Teknik analisis data untuk menguji masing-masing variabel dan pengujian hipotesis melalui model persamaan regresi linear sederhana melalui software SPSS Versi 20. Penelitian ni menghasilkan temuan bahwa kebijakan utang berpengaruh positif signifikan terhadap nilai perusahaan dan risiko bisnis memoderasi hubungan kebijakan utang terhadap nilai perusahaan.

INTRODUCTION

All companies are established with the main objective of increasing the company's value. The company's value will be reflected in the stock price on the stock exchange (Kontesa, 2015). High company value will provide returns for shareholders, so that the value will be viewed by investors as important information in making investment decisions. Investors invest funds with the aim of maximizing the wealth obtained from dividends or capital gains, while management tries to maximize investor welfare by making the right decisions in the form of dividend and funding policies. In an effort to increase the company's value, companies that have gone public definitely need additional funds or large capital for their operational activities. Managers are expected to be able to take the best actions for the company by maximizing the company's value to achieve shareholder prosperity (Andini and Wirawati, 2014). On the other hand, decisions taken by managers tend to protect and fulfill their interests before fulfilling the interests of the owners, thus creating a conflict called agency conflict. This agency conflict creates agency costs, namely costs used to control all activities carried out by managers, so that managers can act consistently in accordance with the contractual agreement. One way to reduce agency costs according to Jensen and Meckling (1976) is to use a debt policy. With this debt, the company must make periodic payments on interest and loans, so that it can reduce the desire of managers to use free cash flow to finance suboptimal activities.

LITERATURE REVIEW

Company Value

Company value is the investor's perception of the company, which is often associated with stock prices. High stock prices make the company's value high. Stock prices are the prices that occur when stocks are traded on the market (Wardani and Hermuningsih, 2009). High PBV will make the market believe in the company's future prospects. This is also the desire of company owners, because high company values indicate that shareholder prosperity is also high (Soliha and Taswan, 2002). In reality, not all companies want high (expensive) stock prices, because they are afraid that they will not sell or will not attract investors to buy them. This can be proven by the existence of companies that go public on the Indonesia Stock Exchange that do stock splits (split shares). That is why stock prices must be made as optimal as possible. This means that stock prices should not be too low or too high. Stock prices that are too low will also have a negative impact on the company's image in the eyes of investors. 2. Debt Policy Debt policy includes the company's funding policy that comes from external sources. Determination of this debt policy is related to the capital structure because debt is one of the compositions in the capital structure. A company is considered risky if it has a large portion of debt in the capital structure, but conversely if the company uses small or no debt at all, the company is considered unable to utilize additional external capital that can improve the company's operations (Brigham and Houston, 2001).

Debt policy is often symbolized by DER (Debt Equity Ratio)

Which reflects the ratio between total long-term debt and equity. So it can be said that the lower the DER means that the level of debt owned by the company and the company's ability to pay debts are also higher (Indahningrum & Handayani, 2009, pp. 189-207). If a company uses debt continuously, the greater the risk borne by the company. High risk tends to lower stock prices, but increases the expected rate of return. The optimal capital structure is at a balance between risk and expected return so that it can maximize stock prices or company value (Brigham and Houston, 2001). Debt can be classified into three types, namely (Riyanto, 1995):

1) Short-term debt
2) Intermediate-term debt
3) Long-term debt

Short-term debt is debt with a term of less than one year. Most short-term debt consists of trade credit, namely credit needed to be able to run a business, including current account credit, credit from sellers (levancier credit), credit from buyers (afnemers credit), and promissory notes. Medium-term debt is debt with a term of more than one year and less than ten years. The need to finance a business through this credit is due to needs that cannot be met through short-term or long-term credit. The main forms of medium-term debt are term loans and lease financing. Long-term debt is debt with a term of more than ten years. This long-term debt is used to finance company expansion.

METHODS

Data Analysis Techniques

- Descriptive Statistics: Used to provide an overview of the characteristics of the data (minimum, maximum, average, standard deviation) of all research variables.
- Classical Assumption Test: It is important to ensure that the regression model used meets the statistical assumptions so that the results are valid.

These tests include:

1. Normality Test: Tests whether the data is normally distributed.
2. Multicollinearity Test: Tests whether there is a high correlation between independent variables.
3. Heteroscedasticity Test: Tests whether the error variance is constant.
4. Autocorrelation Test: Tests whether there is a correlation between errors in one period and the previous period (specifically panel data).
5. Panel Data Regression Analysis: Because the data used is a combination of cross-section (several banks) and time series (several years), panel data regression analysis is the most appropriate method.

Best Model Selection (Chow Test, Hausman Test, Lagrange Multiplier Test):

- Chow Test: Choosing between Common Effect Model and Fixed Effect Model.
- Hausman Test: Choosing between Fixed Effect Model and Random Effect Model.
- Lagrange Multiplier Test (LM): Choosing between Common Effect Model and Random Effect Model.

Hypothesis Testing (Partial Test (t-Test) and Simultaneous Test (F-Test)):

1. t-Test: Testing the significance of the influence of each independent variable (debt policy) on the dependent variable (firm value) partially.
2. F-Test: Testing the significance of the influence of all independent variables (debt policy)

RESULTS

Negative Impact of Debt Policy: In general, debt policy has a negative and significant impact on the value of banking companies. This means that increasing the use of debt tends to decrease the value of banking companies. This phenomenon can be explained by several factors:

1. Increased Financial Risk: For banks, debt is an integral part of operations, but excessive debt can increase the risk of default and investor risk perception, which in turn depresses stock prices and company value.
2. Higher Interest Expenses: Increasing debt means higher interest expenses, which can reduce net income and dividends distributed to shareholders, thus reducing investment attractiveness.
3. Flexibility Restrictions: High debt levels can limit management's flexibility in making strategic decisions, such as new investments or expansion, due to debt repayment obligations.

Importance of Optimal Capital Structure: This finding also indicates that there is an optimal capital structure for banks. Although debt can provide benefits as a cheap source of funding, beyond a certain point, the cost of debt will exceed its benefits and actually damage the value of the company. Banks need to balance the use of equity and debt to maximize company value. • Implications for Investors and Bank Management: For investors, these results emphasize the importance of analyzing bank debt ratios before investing. Banks with controlled debt levels tend to be more attractive. For bank management, these findings serve as a reminder to implement prudent debt management in order to maintain stability and increase the company's value in the eyes of the market.

DISCUSSION

Banking Context and Debt Policy Banking has unique characteristics compared to other sectors, where debt is an integral and essential part of their business model. The main source of funding for banks is third party funds (TPF) in the form of savings, demand deposits, and deposits, which are classified as liabilities or debt in accounting. In addition, banks can also issue bonds or borrow from the interbank money market. Therefore, the debt ratio of banks is inherently higher than that of manufacturing or non-financial service companies. Nevertheless, debt policy in the banking context remains relevant in determining the value of the company. Debt policy here refers more to the long-term funding structure and how banks manage the proportion between equity (core capital) and interest-bearing liabilities (e.g., long-term debt securities or syndicated loans) outside of TPF which is the core of operations. This balance is crucial to maintaining financial health and investor confidence. Relevance of Capital Structure TheoriesThe finding that debt policy has a negative and significant impact on the value of banking companies can be analyzed through the lens of capital structure theories:

1. Trade-Off Theory: This theory states that companies choose a capital structure by balancing the benefits and costs of using debt. The benefits include tax savings from debt interest (tax shield). However, the cost is the cost of financial distress. For banks, the cost of financial distress is very high because it can trigger a crisis of confidence that has the potential to cause bank runs and systemic bankruptcy. Therefore, excessive use of debt (outside operational DPK) will greatly increase the perception of risk and the cost of financial distress, thereby suppressing the value of the company.
2. Pecking Order Theory: This theory states that companies prefer internal funding sources (retained earnings) first, then debt, and finally the issuance of new shares. In the banking context, this theory may be slightly different because DPK is the main source. However, when banks need additional funding outside DPK and retained earnings, they will tend to choose debt before issuing new equity. However, if the market sees that the bank is too dependent on debt (outside of DPK), this could be a negative signal that the bank has problems generating sufficient internal profits or is having difficulty collecting DPK.
3. Agency Theory: The use of debt can create agency problems between shareholders and creditors. Creditors may be concerned that shareholders will take higher risks after debt is given (asset substitution). To mitigate this risk, creditors can charge higher interest rates or stricter requirements, which ultimately increases the cost of debt for the bank and can depress the value of the company.

CONCLUSION

This study concludes that debt policy has a negative and significant impact on the value of banking companies listed on the Indonesia Stock Exchange (IDX). This shows that, although debt is a fundamental component in bank operations (especially in the form of Third Party Funds/TPF), excessive or uncontrolled use of debt outside of TPF which is the core of the bank's business can reduce the perception of the bank's value in the eyes of investors. Increasing debt burdens, especially those that are not balanced by increased income or adequate efficiency, tend to increase the bank's financial risk, reduce net profitability, and ultimately depress stock prices and company value. These results underline the importance of prudent and optimal capital structure management for banks to maintain financial stability and maximize shareholder value.

LIMITATION

The results of this study have several important implications:

1. For Bank Management:
    - Strict Debt Risk Management: Banks must have a very careful debt management policy. Although DPK is the foundation, expansion through non-DPK debt must be carefully considered.
    - Capital Structure Optimization: It is important to find the optimal balance point between debt (including DPK and non-DPK debt) and equity. A debt ratio that is too high can damage the bank's reputation, depress stock prices, and ultimately reduce the company's value.
    - Investor Trust Management: The value of a banking company is highly dependent on trust. A controlled debt level provides a positive signal to the market that the bank has strong fundamentals and is able to manage its risks.
2. For Investors:
    - Financial Ratio Analysis: Investors must carefully analyze the bank's debt ratio (for example, Debt to Equity Ratio or the ratio of liabilities to assets, excluding DPK) as one indicator of financial health and the potential value of the company.
    - Industry Comparison: It is important to compare the bank's debt ratio with the industry average and similar competitors to get a more accurate picture of the level of risk taken by the bank.
3. For Regulators (Financial Services Authority/OJK):
    - Prudent Supervisory Framework: These results support the importance of a strong supervisory framework by regulators to ensure banks do not take on excessive debt that could endanger the stability of the financial system.
    - Capital Adequacy: The emphasis on banks' capital adequacy ratio (CAR) by OJK is highly relevant as core capital (equity) serves as a buffer against debt risk and operational losses.

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